

Chicago's Salute to the Railroads

ADDRESS

of

JESSE H. JONES

Chairman of the Reconstruction Finance Corporation

AT THE FIFTH ANNUAL DINNER OF
THE ASSOCIATION OF STATE STREET SENIORS
OF CHICAGO

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MR. CHAIRMAN, MAYOR KELLY, LADIES AND GENTLEMEN:

I am glad of the opportunity to join with the State Street Council in their salute to American railroads. Situated, as it is, in one of the most productive sections of the world and on the southernmost shore of the Great Lakes, Chicago inevitably is a city of destiny. Even in the days of primitive methods of transportation it was a focal point of travel and trade. The large area lying between the Great Lakes and the Rocky Mountains would still be a comparative wilderness, and even beyond these boundaries, had it not been for the railroads.

Notwithstanding its many natural advantages, it was not by accident that Chicago became the largest railroad center in the world, with 107,000 miles of railroads terminating here. Railroads bring into Chicago an average of 150,000 people every day and take out as many. The fastest passenger trains in the world operate in and out of Chicago, and experience has already proven the wisdom of meeting the demand for super high-speed trains. They are profitable. People want to travel fast and comfortably and are willing to pay for such service.

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483 passenger trains and approximately 600 freight trains operate in and out of Chicago daily. An average of 36,000 freight cars are handled every day at Chicago. 127 railroads have offices in Chicago. 80,000 men and women in Chicago are employed by railroads. While many carloads of freight are switched from one railroad to another in Chicago, no passenger car or Pullman passes through Chicago. It is "change cars" at Chicago and visit State Street, the shopping district, "between trains." I imagine the State Street Council had something to do with the arrangement that made Chicago a terminus for passengers—a point of destination.

I would not undertake to say that Chicago built the railroads or that the railroads built Chicago. They grew up together, one as inevitable as the other.

If one name is more associated with Chicago in the minds of the American people than any other, it is Marshall Field. And as State Street is synonymous with Chicago, Marshall Field is synonymous with State Street. It is therefore fitting that in commemorating the Centennial of this great American city, the president of Marshall Field and Company, Frederick D. Corley, is chairman of the State Street Council, and presiding here this evening. Mr. McKinsey, chairman of Marshall Field and Company, is also present.

Other familiar names associated with the building of Chicago and the railroads include John T. Pirie, the Mandel brothers, E. J. Lehman, Charles Netcher, C. D. Peacock, John Farwell, Montgomery Ward, Richard W. Sears, Julius Rosenwald, Potter Palmer, Henry Lytton, merchants. Mr. Lytton, who is 91 years young, is present at the dinner tonight. In the packing industry, Phillip D. Armour, Nelson Morris, Michael Cudahy and Gustave Swift. Bankers, John J. Mitchell, Lyman Gage, later Secretary of the Treasury, James B. Forgan, George M. Reynolds and N. W. Harris. In the railroad world, Marvin Hughit, Jim Hill, E. H. Harriman, E. P. Ripley, Stuyvesant Fish and George M. Pullman.

The first Mayor of Chicago was William B. Ogden in 1837, 100 years ago. He later became president of the Pittsburgh, Fort Wayne and Chicago Railway. Other mayors in addition to your present Mayor, the Honorable Ed Kelly, who will long be remembered, include Long John Wentworth back in 1857; Roswell Mason, your Mayor at the time of the great Chicago fire, and Thomas Hoyne who followed him in 1875; Carter Harrison, five times elected Mayor, first in 1879, and his son Carter, who also served five terms, beginning in 1897. Carter, Junior, now 78, is Collector of Internal Revenue at Chicago and still going strong.

Chicago, although not incorporated until 1837, was founded in 1803 by two fur traders, John Kinzie and Gurdon Hubbard, and a roving French interpreter, Antoine Wilmette. The first census of Chicago was taken in 1840, and your population was recorded 4,047.

I am pleased to relate that John Farwell, the merchant, built our State Capitol in Texas in the 80's, and took payment for it in land at a dollar an acre—three million acres. Texas had more land than money, and John was a good trader. Our Texas capitol, though not so pretentious, was patterned after our national capitol at Washington. Its building proved a good investment for Texas and the three million acres of land a good investment for Farwell.

Many more names could be appropriately mentioned in connection with building Chicago and the railroads that terminate here, but these are enough to illustrate that progress and accomplishments come through the driving force of man power.

There have been three distinct eras in the history of our railroads, even though their entire development is embraced within a single century. First there was the period of construction when they changed the geography of our nation by pushing our frontiers westward from the Alleghenies to the Pacific, across the Mississippi, the great plains and the Rockies.

They brought settlers who helped turn territories into states, and made possible not only the winning of the West but the holding together of a country so vast that even such a wise statesman as Daniel Webster, 90 years ago, considered it impossible for regions so remote as the old Oregon Country to become or remain an integral part of the union.

How suddenly all this was changed by the discovery of gold in California, and by the far-sighted patriotism of Abraham Lincoln and others who proved the practicability of the Pacific Railway project, completed in 1869.

For 50 years railroad building proceeded at a rate unparalleled in any country, and as a new enterprise it dominated the financial, industrial and commercial life of the nation. The westward movement, which had begun by wagon train and canal boat, was stimulated a hundred-fold. New cities sprung up almost overnight; new industries were born, a striking example being the meat packing industry of which Chicago is the greatest center in the world.

By about the turn of the century frontiers had been pretty well eliminated and railway mileage completely covered the country. Then came the era of improvement and refinement of our railroads, as well as their practices and methods.

Thousands of miles of line were rebuilt on easier grades and better alignment, so as to carry more economically and expeditiously the constantly increasing burden of travel and traffic. Larger and better trains and locomotives were developed. Double tracks were laid. Signal systems were installed. Heavier rail and ballast provided safer and smoother roadbeds.

In that era railroads practically had a monopoly on transportation, although there was vigorous competition between systems, both in occupying territory and competing for business. This competition was healthy in that it gave us better roads, better equipment and better service, although in the light of later events it gave us too much mileage.

The roads are now in the third and current era, with a new kind of competition, competition that was not dreamed of when the roads were being built—travel and traffic by the highway, continued expansion of canals, rivers and waterways, and now the skies.

When we were building our railroads the demand for them seemed limitless, but with new modes and new styles in travel, it appears that we have more railroad mileage than we can support. We can improve their service and give them new dresses, but we are not content with that. We must have the new. The fact, however, that we are living in a streamlined age does not mean that we can do without the railroads, or that they should not continue to keep abreast of the times and fight to hold their places. They should not be allowed to deteriorate and we ought not demand service of them that we are not willing to pay for.

Whatever the shipper and the traveler lack in paying the cost of transportation must be paid by the investor in railroad securities or the taxpayer, and they are largely one and the same. Our insurance companies and savings banks, reservoirs of the savings of millions of people, including especially women and children (everyone depending on an insurance policy or who has a savings account), are our largest investors in railroad securities.

The roads were given an emergency increase in certain freight rates for the year 1936. This amounted to approximately \$95,000,000 for all the roads, but expired at the end of 1936. The Interstate Commerce Commission recently restored about one-half of this emergency charge. But to get even that small increase required almost a year's consideration by the Commission.

The roads are now asking the Commission for additional revenue in increased rates, both passenger and freight, to cover recent increased costs of operation over which the roads have no control. These are increased wages, increased cost of materials, the cost of Social Security and pensions to cover retirement.

The Commission will undoubtedly give proper consideration to this request, but management should not rely too heavily upon increased rates to meet its problems. There is much that management can do by eliminating unnecessary duplication of service.

For example, there are six independent systems, maintaining nine tracks to serve the territory between Chicago and the Twin Cities. They operate twenty-four through passenger trains daily each way, some of them operating at a loss. Two or three of the more direct routes could handle the through business with probably eight or ten trains a day each way, adding extra sections when necessary.

Local traffic could be continued by all of the routes, but with fewer and less expensive trains, still serving every locality.

There are four roads with eight tracks between Chicago and Milwaukee, and five between Houston and the Dallas territory in my home state. Similar situations exist all over the country and they include freight as well as passenger service. In respect of freight, some roads run squarely into Government subsidized water competition. This should be taken into account in fixing rates.

Undoubtedly we have as good and as capable men operating our railroads as are to be found in any other industry, and they are not overpaid. But I sometimes wonder if railroad management had to find their own salaries through economical management, were freed of banker domination and could not seek the shelter of the courts in lean years, if they would not bring about many savings that are possible under laws and regulations now governing their operations.

Notwithstanding that Congress is slow in enacting railroad legislation and that the Interstate Commerce Commission may be none too fast in adjusting rates to suit changed conditions, and that taxes and other costs are continually on the increase, management could help a great deal by eliminating unnecessary and uneconomical duplication of service. This would involve somewhat less labor, but labor has a dismissal wage contract with all Class I railroads upon which to rely under such circumstances. One of the principal purposes of this contract was to permit operating economies by consolidations or coordinations, and to afford protection to labor for loss of employment. It provides that the displaced employee shall be paid certain sums based on his length of service and past earning power. These payments can amount to more than a year's earnings if paid in a lump sum, or at the employee's choice, a somewhat greater total amount if taken in monthly installments over a period of three years. Coordination of operation of railroads throughout the country would undoubtedly result in substantial savings.

Holders of railroad securities cannot expect the government to insure their investments any more than the government insures the investments in other private enterprise, but with government regulation as to service, charges, responsibility, working conditions, et cetera, government should protect the roads against unfair and irresponsible highway traffic and government subsidized water rates, and should not permit unnecessary and uneconomical duplication of service between the roads.

The driver of a locomotive is only allowed to run so many miles a day. The driver of a truck that is not a common carrier, and the majority in operation are not common carriers, may be at the wheel as long and as often as he wishes, regardless of the danger to the life and property of others on the highway, and there is nothing to require that his employer pay him a wage commensurate with intelligent and efficient service. Nor is there any regulation as to rates or adequate requirement for responsibility. Incidentally, it would require 750 average-sized trucks to carry as much coal as a 75-car freight train. It is bad enough to have to wait at a railroad crossing for a freight train to pass, but imagine trying to get by 750 trucks on the highway.

We must have all forms of transportation and every method should be perfected to insure safety of life and property and to give prompt and efficient service at the lowest possible cost, but there should be no disparity of treatment as between the various methods of transportation either by the government or the public.

If we build and maintain highways for the use of trucks and buses that operate as public carriers, we should take this into account in the treatment of our whole transportation problem.

We should be as exacting of highway transportation in each category, including rates, responsibility, and working conditions, as we are of the railroads.

Impoverished railroads mean less spending for labor and materials and this adversely affects the national prosperity. Yet we must be careful not to get rates so high that the consumer suffers. It is not an easy problem we are confronted with, though a perfectly practical one, and entirely possible of solution. I feel sure if the railroads are allowed to earn sufficient to enable them to borrow the money, they would spend a billion dollars for rehabilitation, equipment, additions and improvements in 1938, and without sufficient earnings to bolster their credit, this expenditure will probably not be more than half that amount.

The greater part of railroad capitalization is borrowed money, and every five dollars net income available for interest enables the expenditure of one hundred dollars for labor and materials. I know of no other situation in our economic structure where the net earned dollar is multiplied twenty times in the volume of business thus created.

We know that when railroads earn money they spend it, and this makes for better business and better conditions. It furnishes employment and gives the farmer a better market for his produce. Paying interest and dividends on inflated railroad capital need no longer be feared. The water has all been squeezed out.

I referred a while ago to our excellent passenger service, but probably of greater importance is the fact that freight trains are now operating upon schedules faster and more dependable than passenger trains were operated a few years ago. This makes unnecessary the carrying of large stocks of every character. Purchasers in almost every line are now able to buy for scheduled delivery and rely upon it.

In the past five years it has been my business to get acquainted with the railroads and I never travel but that I marvel at the perfection and dependability of the service. I can leave Washington at five in the afternoon, spend the entire next business day in Chicago, and arrive at San Francisco or Los Angeles with but one business day lost. This is possible only because of the intelligence, integrity and devotion to duty of thousands of men in overalls, not only those who operate the trains, but those who build them and who maintain the track and equipment and who operate the intricate signal systems. The failure of any one of these factors would disarrange engagements and cause the loss of life and property. It is little short of amazing that of the hundreds of millions of train passengers carried each year, practically no lives are lost.

Railroad employees are high class men, and devoted to their calling, whether in the cab, the caboose, at the brakes, in the President's office, or any other branch of the service. And while in large measure the men in the ranks make their own rules for service, and demand good wages, they give value received, and keep their agreements. Their demands may sometimes seem inopportune, but by and large very little fault can be found with what we term railroad labor.

You may be interested to know the Reconstruction Finance Corporation was created in large measure because of railroads. Beginning with 1929 they were forced to lay off men and stop buying supplies to such an extent as to be an important factor in bringing on the depression. They had used up their cash and available credit, and the bankers could no longer accommodate them. Between 1929 and 1933 the gross income of railroads was cut in half, and it is to the credit of railroad management that they were able to reduce operating expenses 47%, almost in equal proportion to the loss in gross. This is a creditable record in meeting a very serious situation—making a landing from great height when the gas gave out, with only slight damage to the machine and very few casualties.

Banks, business, industry, agriculture and livestock, all were equally sick and needed government help, but the railroads were prominent in the discussions before Congress that led up to the creation of the Reconstruction Finance Corporation.

Yet of the 12 billion dollars RFC-government credit by authority and direction of Congress, only \$1,070,000,000 has been allocated to the railroads, less than 10%. Of this amount \$276,000,000 was not used and, agreeable to the applicants, the loan authorizations have been cancelled. We have actually disbursed \$733,000,000, including \$196,000,000 for purchase of railroad securities from PWA. We still have commitments to railroads aggregating \$61,000,000, which will be disbursed if needed. We have collected \$331,000,000 on railroad loans, leaving a balance outstanding of \$402,000,000. Of all RFC disbursements for loans and bank stock investments, almost three-fourths has already been repaid and without any pressure. We will have no ultimate net loss on the balance. What few individual losses we have will be more than offset by net earnings from interest over expenses and interest we pay for the money we borrow to lend.

We have made loans to 79 railroads and receivers of railroads, 32 of which roads have paid us back in full. We have loans to 22 railroads aggregating \$163,000,000 that are in the hands of the court. I am glad to say there are very few railroad debts maturing within the next year. I refer to the whole railroad situation and not to RFC loans, but unless income available for fixed charges can soon be substantially increased, many roads will be operating on short rations and some of them in serious difficulty.

While holding no particular brief for the railroads except as they affect the whole national economic structure, I believe the problem may best be solved by coordination of operation of roads occupying the same general section. Many actual consolidations should be made, being careful always to preserve competition between principal industrial centers and agricultural sections.

West of the Mississippi we might have, say five systems, two occupying the Northwest and middle Northwest; two the West and Southwest, and one the central section. East of the Mississippi two systems could occupy the South and Southeast and two or possibly three the territory between St. Louis, Chicago and the East, including New England, again being careful to preserve active competition between the systems occupying a given territory.

In the past we as a nation have encouraged competitive railroad lines, but new conditions confront us, and many of the roads are in a bad way. Many cannot survive without higher rates than the consumer can pay. Furthermore, when rates are too high, the traffic is not forthcoming. While the railroads still handle a great majority of all freight, other forms of transportation are taking enough business to threaten the stability of the industry if we continue to operate all of the mileage on a highly competitive basis. Railroads maintained at their highest possible efficiency are essential to the general welfare.

The question comes up, therefore, in a desire to avoid government ownership, as to whether railroads should not be considered more as monopolies such as the telephone and the telegraph, but subject to strict government regulation both as to service and charges, maintaining regulated competition between the several groups.

It would seem that if our genius can make railroad travel safe at 120 miles an hour, travel by air at more than double this speed, navigate the seas beneath the surface, and carry the voice around the world in an instant, that those of us in business should be able to solve these purely practical problems.

Just a word about business conditions. There has been entirely too much attention paid in recent weeks to the gyrations of the stock market. I have no information as to what percentage of our people owns stocks that are listed on the exchanges and traded in daily, but it is not large. I repeat here a statement I made in a recent address before the oil industry at Houston: "Whatever the cause we should all realize that it is better to make money by working for it than by betting on the rising and falling figures of the ticker tape, or which horse can run the fastest."

The legitimate income of the average working man or woman, regardless of station, is not affected by whether stocks go up or down; it is, or should be, the dividends that he is interested in, if interested at all, and earned dividends are not being withheld. Extreme fluctuations do, however, create a psychological influence in the mind of the average person because he does not understand the reasons for them. In that way they may prevent normal spending.

Our country has seldom been more prosperous than it is now. We have abundant crops of all kinds and prices are fair. They could be better, but they have been much worse. Certainly there are no clouds on the horizon that could adversely affect the average American citizen, unless it be foreign wars, and that possibility is remote insofar as our becoming involved in them.

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